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Where not to seek investing advice

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Clichés and speculation from talking heads abound in the 24-hour financial news cycle

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Ask Dan Solin, author of the Smartest series of investment books, to talk about bad advice coming from television's financial pundits and he gives a short laugh.

"How much time do you have?" he asks.

As it turns out, much of what emerges from today's 24hour financial news cycle, especially in the United States, drives him bonkers. Opinions about stock picking, trading manoeuvres and market predictions are a dime a dozen, but solid, balanced information is usually in short supply.

"The [advice givers] are well dressed. They're very articulate. They're often well credentialed - and everything they're saying is complete nonsense," says Mr. Solin, who is based in Naples, Fla.

While Canada's business and finance programs tend to be lower key and host fewer talking heads, average investors flipping channels or watching online are likely influenced by the sound bites and investment clichés that proliferate on either side of the border, says Noel D'Souza, a fee-only money coach and financial planner in Toronto.

"The problem is that oftentimes these junk things that come out have an element of truth to them," he explains.

"But they're taking that element of truth and then over-generalizing it."

It's easy to understand why investors' ears are tuned for chestnuts. A few weeks ago, Adrian Mastracci, a fee-only senior portfolio manager with Lycos Asset Management Inc. in Vancouver, counted the number of major economic data releases out of the United States - about jobs, factory orders and consumer credit, for instance - and he came up with 19 in seven days.

"You have an avalanche of stuff coming your way every day of the week," he says. "There are quite a few investors who keep track of it and follow it. Heaven only knows what they get out of it."

Against this backdrop of economic noise, here are a few maxims, platitudes and just plain worthless bits of advice that pop up in the media.

'IT'S DIFFERENT THIS TIME'

Dot-com bubbles, overinflated housing markets and runaway bull markets might seem like different beasts on the outside, but their trajectories show similar patterns of overoptimism and panic. Booms and busts just happen to involve different timelines and people.

Mr. Mastracci points out similarities between the financial shockwaves felt in 2001 and then again 2008. "The same kind of thing keeps happening over and over. We make the same mistakes," he says.

'HIGH FEES DON'T MATTER AS LONG AS THE INVESTMENT IS MAKING MONEY'

Making money for whom, exactly? "Fees always matter," says Mr. D'Souza. "No matter what the investment is, you would be better off with more money in your pocket if the fees were lower."

Consider the ramifications of being charged a high mutual-fund fee over many years. A $100 investment that makes a strong 13 per cent and compounds annually would be worth more than $3,900 in 30 years. But if you strip away 3 per cent of those earnings in order to pay fees, even without a onetime sales or redemption fee, the 30-year amount would be about $1,560.

Is that investment manager's work worth giving up such a substantial portion of your retirement?

'DON'T WORRY, THE STOCK MARKET WILL COME BACK'

Historically, we know this to be true. The real question is how long it will take.

What if the timing doesn't align with your financial goals, Mr. D'Souza asks. "If the market really crashes the year before you retire and you have to start drawing on your portfolio, do you have that time for it to come back?" He also points out that this same general advice for individual stocks is even more irresponsible. "Oh, stocks go up and down? Well, you know, Nortel won't and Sears Canada won't."

'IT WAS OBVIOUS THIS WAS COMING'

The housing market correction in Toronto? It has been predicted for years. The inevitable cooling of the stock market?

Hindsight is everything. So when financial experts prophesize the next recession or investment plunge and are correct, what does that actually mean? Probably not much; even a broken clock is right twice a day.

"Really, what actionable advice can an investor take just knowing that something is coming? They really need to know when - and nobody knows that," says Mr. D'Souza.

'THE MARKETS ARE BOUND TO ...'

Investment predictions might be Mr. Solin's biggest irritation. Studies have shown that people - even those with credentials - do a poor job of buying low and selling high. "Markets are basically random, right? We know this."

Instead of paying attention to these talking heads, step back and consider Mr. Solin's own investment guidance and focus on what you actually have power over. Buy low-fee funds, minimize and defer taxes to the extent you can, and diversify your holdings to alleviate risk.

"These are all things we can control," he says. "The rest of it is just noise."